

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 IO-13 ISO-00 EURE-00 SSO-00 NSCE-00

USIE-00 INRE-00 STRE-00 SP-02 AID-05 NSC-05

EPG-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 L-03

CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 LAB-04

SIL-01 PA-01 PRS-01 H-01 XMB-02 OPIC-03 AGRE-00

EA-07 ITC-01 /102 W

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O 071720Z JUL 77

FM AMEMBASSY BRUSSELS

TO SECSTATE WASHDC 0715

INFO AMEMBASSY STOCKHOLM

USMISSION GENEVA

ALL EC CAPITALS

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USEEC

STR FOR AMBASSADOR STRAUSS

STOCKHOLM FOR AMBASSADOR WOLFF

E.O.11652:N/A

TAGS: ETRD, EEC

SUBJECT: EC ATTITUDES AND OPTIONS FOR THE MTN

REFS: (A) LONDON 10953; (B) PARIS 18049; (C) BRUSSELS

06755; (D) PARIS 19345; (E) BRUSSELS 06752

1. SUMMARY: VISIT OF AMBASSADOR STRAUSS TO BRUSSELS ON JULY 11 WILL PROVIDE AN OPPORTUNITY TO EXPLORE IN DETAIL WITH PRINCIPAL COMMISSIONERS THE CURRENT EUROPEAN ATTITUDE TOWARD THE MTN AND THE OPTIONS WHICH THE EC SEES BEFORE IT IN TERMS OF A NEGOTIATED OVERALL SETTLE-
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MENT. RECENT EVENTS AND POLITICAL ANALYSIS IN EUROPE SUGGESTS THAT DOMESTIC PROBLEMS, NOTABLY UNEMPLOYMENT, HAVE INCREASED IN SEVERITY AND THAT PROSPECTS FOR THE MTN HAVE DECLINED. IN OUR VIEW, IT IS PREMATURE TO REACH THIS CONCLUSION. PRESSURES ARE INCREASING, PARTICULARLY IN FRANCE AND THE UK WHERE THE APPROACHING POLITICAL CAMPAIGNS APPEAR TO BE REDUCING THE GOVERN-

MENT'S ABILITY TO RESIST CALLS FOR PROTECTION. NONETHE-
LESS, THE COMMISSION AND OTHER MEMBER STATES CONTINUE TO
FAVOR A MODERATELY AMBITIOUS MTN OUTCOME. AMBASSADOR
STRAUSS, AND THE USG IN GENERAL, WILL NEED TO COMBINE
AN UNDERSTANDING OF EUROPEAN CONSTRAINTS ALONG WITH A
CLEAR INDICATION OF US OBJECTIVES AND INTENTIONS IN ORDER
TO MOVE THE MTN ALONG. END SUMMARY

2. ENTHUSIASM FOR MTN HAS BEEN HIGHER ON THE US THAN ON
EUROPEAN APPROACH FROM THE START HAS BEEN TO SUPPORT
GREATER LIBERALIZATION BUT TO SHY AWAY FROM ANY EFFORT
TOWARD MAJOR EXPANSION OF FREE TRADE. THE EC TARIFF
FORMULA PROPOSALS AND THE CAREFUL HEDGING OF LANGUAGE
ON AGRICULTURE, WERE MEANT AS SIGNALS THAT THE EC WOULD
NOT BE WILLING TO GO AS FAR AS THE US IN THE NEGOTIATION.

3. THIS RELATIVE LACK OF AMBITION BECAME MORE PRONOUNCED
WITH THE 1973-74 RECESSION. ECONOMIC SLUGGISHNESS IN
EUROPE COMBINED WITH DELICATE POLITICAL CONDITIONS IN
SEVERAL MEMBER STATES HAVE ACCENTUATED THE DIFFICULTIES
FOR EUROPEANS TO THINK IN TERMS OF DRAMATIC MOVES TOWARD
TRADE LIBERALIZATION. A PREOCCUPATION WITH HIGH LEVELS OF
UNEMPLOYMENT AND WITH AILING INDUSTRIAL SECTORS (STEEL,
TEXTILES, SHIPBUILDING, ETC.) IS VERY EVIDENT AND IS
REFLECTED IN RECENT DEVELOPMENTS. FOR EXAMPLE, THE
JUNE 30 EUROPEAN COUNCIL (CHIEFS OF GOVERNMENT) STATEMENT
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ON GROWTH, INFLATION AND EMPLOYMENT IN THE COMMUNITY WAS
LESS THAN A SOLID ENDORSEMENT OF LIBERAL EXTERNAL TRADE
POLICIES (LONDON 10953). FRENCH UNILATERAL SAFEGUARD
ACTION ON TEXTILE PRODUCTS (PARIS 18049), THE EC POSITION
ON TEXTILES (BRUSSELS 06755), THE PATRONAT CALL FOR
SUSPENSION OF MTN (PARIS 19345), THE BARRE SPEECH OF
JULY 5, AND EVEN VIEWS EXPRESSED (BUT NOTWIDELY ACCEPTED)
IN THE COMMISSION (BRUSSELS 06752) REINFORCE THE
IMPRESSION THAT THERE IS A SIGNIFICANT BODY OF EUROPEAN
OPINION WHICH ADVOCATES A MORE RESTRICTED OR ORGANIZED
INTERNATIONAL TRADING SYSTEM.

4. WHILE THE LAST YEAR OR TWO HAVE COMPLICATED THE
SITUATION FOR THE EUROPEANS, WE DO NOT BELIEVE THEY HAVE
FUNDAMENTALLY ALTERED THEIR APPROACH TO THE NEGOTIATIONS.
THE LANGUAGE OF THE SUMMIT COMMUNIQUE DOWN TO DOWNING
STREET REPRESENTS A EUROPEAN AS WELL AS AN AMERICAN
COMMITMENT TO A SUCCESSFUL NEGOTIATION. IN A SITUATION
OF WEAK GOVERNMENTS AND IMPENDING ELECTIONS, FRANCE AND
THE UK HAVE BROUGHT PRESSURE ON THE COMMISSION TO
RESTRUCTURE INDUSTRY AND PROVIDE A BREATHING SPACE WHILE
THIS IS BEING DONE. IN STEEL THIS HAS MEANT THE DAVIGNON

PLAN AND EFFORTS TO OBTAIN VOLUNTARY REDUCTIONS OF EXPORTS FROM JAPAN AND OTHERS. IN TEXTILES, THE EC WILL SEEK LOWER GROWTH RATES FROM MAJOR EXPORTING COUNTRIES AND WILL IMPOSE QUOTAS ON SENSITIVE PRODUCTS. THE POLICY QUESTION FOR US CONSIDERATION IS WHETHER WE WILL FACE LIMITED MEASURES OR WHETHER THE ACTIONS OF THE LAST FEW MONTHS ARE ONLY A BEGINNING WHICH WOULD ALSO PRECLUDE ANY MEANINGFUL EC OFFERS IN THE MTN.

5. AMBASSADOR STRAUSS' VISIT OFFERS AN OPPORTUNITY TO EXPLORE WITH KEY COMMISSIONERS THIS QUESTION IN SOME DETAIL. ON EVE OF HIS VISIT, WE SEE DEVELOPMENTS ENUMERATED PARA 3 ABOVE AS AN EXPRESSION OF GREAT UNCERTAINTY OVER SHORT TERM PROSPECTS FOR RECOVERY IN EUROPE, PARTICULARLY LIMITED OFFICIAL USE

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USIE-00 INRE-00 STRE-00 SP-02 AID-05 NSC-05
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IN THE WEAKER COMMUNITY ECONOMIES. ELECTIONS, AND THE PROSPECT OF A CHANGE FROM RIGHT TO LEFT IN FRANCE ADD TO THE UNCERTAINTY, BOTH AMONG INDUSTRIALISTS AND POLITICIANS

AND ARE FACTORS WHICH MUST BE TAKEN INTO ACCOUNT AS WE FORMULATE OUR NEGOTIATING STRATEGY.

6. WHILE IT IS CLEAR THAT THE MEMBER STATES REMAIN AT ODDS OVER THE OBJECTIVES TO BE SOUGHT IN THE MTN, THIS IS NOT FUNDAMENTALLY NEW AND THE COMMISSION'S TASK AS NEGOTIATOR TO ARBITRATE THESE DIFFERENCES REMAINS BASICALLY AS IT HAS ALWAYS BEEN. AS ELECTIONS IN FRANCE AND POSSIBLY THE UK APPROACH, WE WILL DOUBTLESS HEAR MORE ABOUT "ORGANIZED LIBERALIZATION" AND "CHANGES IN INTERNATIONAL ECONOMIC STRUCTURES" THAN WE HAVE IN THE PAST. THE COMMISSION WILL HAVE TO BALANCE THESE CONCERNS AGAINST THOSE OF THE OTHER MEMBER STATES (MAINLY GERMANY AND THE BENELUX) WHICH ARE NOT OVERLY ENAMoured WITH EXCESSIVE DIRIGISME, AND THE COMMISSION'S OWN DESIRE TO LIMITED OFFICIAL USE

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MAKE THE MTN SUCCESSFUL.

7. WE HAVE THE IMPRESSION THAT THE COMMISSION REALIZES THAT IT CAME CLOSE TO LOSING CONTROL OF COMMERCIAL POLICY IN ONE KEY AREA, TEXTILES, THIS YEAR. THE COMMISSION EFFORT TO OBTAIN A COUNCIL MANDATE ALLOWING FOR RENEWAL OF A MULTIFIBER AGREEMENT AND FOR A MAJOR TIGHTENING OF THE GROWTH ELEMENT IN BILATERAL AGREEMENTS SHOULD BE SEEN AS AN EFFORT TO REGAIN CONTROL. EVEN HERE, THE OUTCOME IS NOT YET CLEAR. THE COMMISSION WAS SURPRISED BY THE FRENCH UNILATERAL QUOTAS ON CERTAIN TEXTILE PRODUCTS AND WANTS TO MAKE SURE THAT OTHER UNILATERAL MEASURES DO NOT OCCUR AGAIN. WE UNDERSTAND THAT IN A MEETING ON JULY 6, THE COMMISSIONERS AGREED TO ESTABLISH A TASK FORCE TO SET UP A WATCHING BRIEF IN TEXTILES AND OTHER CRITICAL SECTORS, TO MONITOR PROBLEMS, INCLUDING ACCELERATING IMPORTS, AS THEY ARISE. THE COMMISSION ALSO PLANS TO ESTABLISH A SORT OF "OPEN DOOR" FOR COMMUNITY BUSINESS TO ENCOURAGE IT TO COME FIRST TO THE COMMISSION WHEN THERE IS A PROBLEM RATHER THAN TO GO TO A MEMBER STATE.

8. THESE VARIOUS MEASURES ARE DESIGNED, WE THINK, TO ENHANCE THE COMMISSION'S CREDIBILITY AS A GUARDIAN OF ECONOMIC WELLBEING AND TO ALLOW IT TO GET ON WITH THE MAJOR TRADE POLICY PROJECT OF THE MOMENT, THE MTN. WE DO NOT BELIEVE THAT HAFERKAMP, DAVIGNON, GUNDELACH AND COMPANY HAVE GIVEN UP ON THE MTN NOR EVEN THAT THEY HAVE PULLED BACK FROM THE GOALS SPELLED OUT IN THE POSITION PAPERS. THEY, LIKE WE, WANT A TARIFF REDUCTION, A COMMODITY AGREEMENT ON GRAIN, AND A WAY OUT OF THE SUBSIDY/COUNTERVAILING DUTY BOX AND SOME MEASURE OF SUCCESS ON CODES FOR NON-TARIFF MEASURES. THEY DO NOT WANT AS MUCH AS WE DO; THEY NEVER DID. THEY DO FACE

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INCREASED PRESSURES; THEY DO NOT BELIEVE THEM INSUR-
MOUNTABLE. THE STRAUSS VISIT CAN BE USED TO CLARIFY THESE
PRESSURES AND TO GET FROM THE EC A CLEARER VIEW OF HOW FAR
THEY CAN GO. HINTON

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